Performance Measurement Of Public Sector Insurance Units After De-Tariffication

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Abstract
Insurance sector in India was privatised to publicise insurance products. After privatisation of this industry in India in the year 2000, the next important step taken in the general insurance industry was the removal of tariffs on the non-life insurance products with effect from January 1, 2007. The introduction of the free price regime has provided an impetus to the non-life sector. Before the introduction of de-tariffication almost 70% of the business of the non-life sector was driven by various tariffs prescribed by the Tariff Advisory Committee (TAC). The TAC was established under the Insurance Act, 1938, to control and regulate the rates, terms, conditions of general insurance business. TAC has been playing a significant role to specify the tariffs for the product offered by the various insurers in India. Withdrawal of the administered price mechanism from January 1, 2007 has led insurers to design new and innovative suitable products to sustain in the competitive market. The public sector insurance companies enjoyed the monopoly status as a result they lacked flexibility and were not much concerned with profitability. This resulted in erosion of underwriting skills and income of the public sector insurance companies.

So, the present study is an attempt to examine the growth and performance of the public sector insurance companies operating in India in the competitive scenario.

Keywords: Insurer, insurance, IRDA, de-tariffication

1. Introduction
The Insurance industry in India has come to a full circle over the century from being a private sector to a nationalised industry and then back to open competitive market. The insurance business in India has witnessed several regulations, laws and reforms from time to time. The Tariff Advisory Committee (TAC) came into existence in the year 1968 to regulate and set the rates, tariff, terms and conditions for the general insurers operating in India. In the year 1972 the General Insurance Business Nationalisation Act was passed and it came into effect from the year 1973. As a result 107 non-life insurers transacting business in India were amalgamated to form four subsidiary companies National Insurance Company Limited, New India Assurance Company Limited, Oriental Insurance Company Limited, and United India Assurance Company Limited under the holding company General Insurance Corporation of India (GICI). These four companies carried out their business under the supervision of General Insurance Corporation of India (GICI) at the apex. The IRDA Act, 1999, amended Section 57 of General Insurance Business Nationalization Act, 1972, as a result of which the exclusive privilege of carrying on non-life insurance business in India by the GICI and its subsidiaries was ceased. The IRDA was formed to regulate and control the insurance sector in India.

The privatisation of the insurance industry in the year 2000 led to the establishment of the GICI as the reinsurer and the four public sector non-life insurers were directed to operate as individual entity. The year 2007 set a milestone in the history of Indian insurance as the premium rating regime in India which was prevalent since the last five decades was detariffied. The detariffied regime in India is still in infant stage. There has been a significant effect on the market behaviour of the insurers under the detariffied scenario. At present there are 27 non-life insurance companies operating in India, of which 6 are under public sector, the four subsidiaries of GICI now performing as individual entity, the Export Credit Guarantee Corporation Ltd. (ECGC) and Agriculture Insurance Company of India Ltd (AIC).

The present study is an attempt to analyse the performance of the public sector non-life insurers.

2. Objectives Of The Study
The present study has been undertaken with the following objectives in mind.

a) To evaluate the growth of the public sector non-life insurance companies during the de-tariffied regime.

b) To analyse the operating efficiency of the public sector non-life insurance companies in the tariff free competitive market.

c) To analyse the position of non-life public sector companies in the insurance industry in India.

3. Scope Of The Study
The scope of the present study is confined to the following:
a) **Academic Scope** - The academic scope of the study is confined only to the four public sector insurance companies undertaking risk coverage in respect of non-life insurance products.

b) **Geographical Scope** - The study gives a wide coverage of performance of public sector insurance companies undertaking non-life risk for the whole of the country.

c) **Analytical Scope** - The analytical scope is confined only to secondary information based on IRDA reports, IRDA Journals.

### 4. Research Methodology

The research design framed for this research paper is descriptive research design.

a) **Source of Data collection** - The nature of data collected and used for the research are mainly secondary in nature. The relevant and required data are collected from the secondary sources such as Annual Reports of IRDA for various years, text books and national and international dailies and articles etc. A sample field survey was also conducted in the form of an informal interview and discussions with officials, executives, employees and policy-holders of both public and private insurance companies to analyse the objectives of the study.

b) **Statistical tools employed** - The statistical tools used for the purpose of analysis are the percentage and ratios. The information collected have been classified, tabulated and analysed as per the requirements to fulfil the aforesaid objectives.

c) **Tools of measuring performance** - The following tools of measuring performance have been selected for the purpose of study.

   i. Number of New Policies issued
   ii. Premium Underwritten in India
   iii. Operating Expenses
   iv. Investment Income
   v. Net Incurred Claims
   vi. Underwriting Losses

### 5. Periodicity Of The Study

The periodicity of the present study is 2007-08 to 2012-13 i.e. six years. Justification for selecting the periodicity being the non-life insurance sector was de-tariffied in India from 1st January, 2007 so the study covers the post de-tariffied period.

### 6. Conceptual Framework

a) Premium underwritten in this study is the amount of premium collected by the insurer for undertaking the insurance risk.

b) Net Incurred claim in this study reveals the amount of claims underwritten by the insurer. These are those claims that have been paid by the insurance companies to their clients. High incurred claims ratio indicates that the insurance companies have been able to service their claims to the satisfaction of their customers.

c) Underwriting is the process of selecting risks for the purpose of insurance and classifying the risk according to the degree of insurability so that the appropriate premium rates may be charged for undertaking the risk. Underwriting results may be the profit or loss which arises out because of the operations of an insurance company. The risks failing to qualify in the underwriting process may not be insured by the insurance company.

d) Operating expenses mean the expenses incurred in operating an insurance company which include official expenses, administrative expenses and distribution expenses etc. In order to increase profitability, every insurance company should try to decrease its operating expenses and increase its revenue.

### 7. Limitations

No research enquiry is complete in all respects. The present study suffers from the following limitations.

a) The data is secondary in nature and inherits all the drawbacks of secondary data.

b) The data for has been taken from annual reports and records of IRDA and as such the analysis is based on the information rendered by IRDA.

c) The suggestions given may not be applicable to organisation in other sectors.

### 8. (I) NUMBER OF NEW POLICIES ISSUED

In order to undertake a study pertaining to performance appraisal of insurance company, the first and foremost measuring scale is the number of policies issued which is discussed hereunder.

#### TABLE 1: Comparison Of New Policies Issued By The Four Public Sector Insurers Compared To Total Policies Issued By The Industry As A Whole

<table>
<thead>
<tr>
<th>Year</th>
<th>Policies issued by the public sector insurers</th>
<th>Growth Rate in % over previous year</th>
<th>Total Policies issued by the industry</th>
<th>Growth Rate in Percentage over previous year</th>
<th>Percentage of policies issued by public sector non-life insurers to Total Industry policies</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007 – 08</td>
<td>385.47</td>
<td>13.47</td>
<td>572.50</td>
<td>22.69</td>
<td>67.33</td>
</tr>
<tr>
<td>2008 – 09</td>
<td>451.37</td>
<td>17.09</td>
<td>670.60</td>
<td>17.13</td>
<td>67.30</td>
</tr>
</tbody>
</table>
Table 1 exhibit that the growth rate of policies issued by public sector insurers has shown an increased growth in 2008-09. Moreover, public sector insurers as against total underwritten premium have experienced a negative growth in 2009-10. In the year 2010-11 the growth rate has significant improvement and has reached a level of 16.52 and in the very next year shown a considerable decline. The percentage of number of policies issued by the four non-life public sector insurers to total policies issued by the industry has declined from 67.33 in the year 2007-08 to 61.59 in the year 2011-12. This indicates that the four public sector non-life insurers have lost their market in terms of number of new policies issued to the private players. Growth rate of new policies recorded a sustainable improvement in the four public sector insurance in 2012-13. The slight decrease in the total market share indicates that the share of cake is eaten by the emerging private insurers in the market.

Reason for declining market share of public sector insurers – while conducting this research enquiry we have tried to contact several new policy holder as well as executive personnel besides some officials of both public and private sector insurance companies. The result of our enquiry has been deliberated here under:

a) Public sector insurers were earlier working under the patronage of the government in a secured and safe environment. There was no competition for which they enjoyed either total monopoly or quasi monopoly status. However, this barrier has been dismantled by the entry of the private players not only from India but also by sophisticated advanced insurers from foreign countries. That has carried a serious challenge and competition to our domestic public sector insurers.

b) After formation of joint venture of a domestic entity and a foreign insurer as a precondition of entry of foreign player in insurance sector, they have brought with them the application of Information Technology and software package applied in designing and processing of application form. They make the customers friendly to electronic insurance proposal and policy and its administration. That mechanism makes their job faster and accurate than our private sector insurers.

c) The foreign players brought with them not only their expertise and global best practices, but they have also put in lots of efforts in new product innovation and development befitting to our needs of domestic insurance custom.

d) They introduced a platform where the monetary resources mobilised and premium collected from the insurance sector can be invested in stock market related products. That kind of intersectoral investment linkage, cross fertilization of the products of insurer to capital market entities with their products and with asset management companies, wealth management companies have opened a new horizon and thereby attracted large investors in insurance sector and then to capital sector.

e) Earlier selling of insurance product in life sector was done by an inventory of insurance agents. Selling of non-life insurance product was dormant and was only done through the statutory mandate of Motor Vehicles Act. Hence penetration into the non-life sector was very scanty and that created a vacuum in our domestic financial sector. The intelligent marketers of private sector have ventured into this unsecured or underinsured segment of the financial market. When the license was granted to the private players they were kept under operational mandate to be fulfilled by them such as –

i. Enhance the level of insurance coverage in the country
ii. Enhance the level of outreach and penetration in insurance sector.
iii. To bring rural sector under the coverage of insurance network.
iv. To fulfil the national commitment of achieving financial inclusion in totality.

Now, under the backdrop the private players accepted the challenge and hence their aggressive approach in increasing their market share and taking out a cake from the mouth of public sector insurers.
8. (II) Premium Underwritten In India

TABLE 2: Comparison Of Premium Underwritten By The Four Public Sector Insurers In India Compared To Total Premium Underwritten By The Industry As A Whole.

<table>
<thead>
<tr>
<th>Year</th>
<th>Premium underwritten by the public sector insurers</th>
<th>Growth in percentage over previous year</th>
<th>Premium underwritten by the industry</th>
<th>Growth in percentage over previous year</th>
<th>Market share of Public sector insurers</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007–08</td>
<td>16831.85</td>
<td>3.52</td>
<td>27823.74</td>
<td>11.72</td>
<td>60.49</td>
</tr>
<tr>
<td>2008–09</td>
<td>18030.75</td>
<td>7.12</td>
<td>30351.84</td>
<td>9.09</td>
<td>59.40</td>
</tr>
<tr>
<td>2009–10</td>
<td>20643.45</td>
<td>14.49</td>
<td>34620.45</td>
<td>14.06</td>
<td>59.62</td>
</tr>
<tr>
<td>2010–11</td>
<td>25151.83</td>
<td>21.84</td>
<td>42576.45</td>
<td>22.98</td>
<td>59.07</td>
</tr>
<tr>
<td>2011–12</td>
<td>30560.74</td>
<td>21.50</td>
<td>52875.77</td>
<td>24.19</td>
<td>57.79</td>
</tr>
<tr>
<td>2012–13</td>
<td>35022.12</td>
<td>14.60</td>
<td>62972.82</td>
<td>19.10</td>
<td>55.61</td>
</tr>
</tbody>
</table>

Source: IRDA Annual reports

During the study period of six years the growth rate of premium of public sector has not shown much variation. Table 2 exhibits that the market share of public sector insurer in respect of premium amount mobilised with their aggressive approach in making their share of cake also. Besides a large number of policy holders have reposed their faith in public sector insurance companies in India because of several reasons which are explained hereunder –

a) In public sector insurance business there is no charge whereas in private sector insurance it is reported to us during the field survey that there are two kinds of charges. One is open and declared; second one is hidden charge. Selling of policies and mobilisation of premium in public sector insurance has got no charges overtly and covertly.

b) The process of claim settlement in respect of public sector is more or less satisfactory and transparent but it is reported to us that the claim settlement procedure in private sector is not very transparent and healthy. Sometimes it is covered with suspicion and complaints.

c) Under the pressure from the government authorities under IRDA regulation and also out of competition the operational mechanism of public sector insurance companies has improved substantially during the period 2009-2014. Policy purchased in one branch for which premium can be paid in any other branch as well; premium can be deposited through online electronic form; settlement of claim has been done through a bank account of a policy holder by way of Electronic Fund Transfer (EFT) has reduced the possibility of physical movement of cheque under registered post instead if the documentation part is perfect the amount is automatically credited to the bank account of policy holder.

d) In course of our field investigation it has been reported that there has been an underground play of asymmetry information in respect of private sector insurance companies while selecting the customer and while selling the product. In contrast sharing of relevant information with the customer is more symmetric and faithful in case of public sector insurance companies.

But there is no area of complacency as the private players are standing growth rate of premium underwritten by the public sector insurers has significantly increased each year over the period of six years, although the industry has experienced a decline in the year 2008-09.

8. (III) Operating Expenses

We now consider another parameter used as a measure tool for performance evaluation of insurance company named as operating expenses.

TABLE 3: Comparison Of Operating Expenses Incurred By The Four Public Sector Insurers Compared To Total Operating Expenses Incurred By The Industry As A Whole

<table>
<thead>
<tr>
<th>Year</th>
<th>Operating Expenses of Public sector insurers</th>
<th>Total Operating Expenses of the Industry</th>
<th>Market Share of Public Insurers</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007–08</td>
<td>3652.96</td>
<td>6137.04</td>
<td>59.52</td>
</tr>
<tr>
<td>2008–09</td>
<td>4347.21</td>
<td>7367.09</td>
<td>59.00</td>
</tr>
</tbody>
</table>
Table 3 exhibits that the operating expenses of the public sector insurers has shown an increased growth every from 2007-08 to 2010-11 and then in the year 2011-12 there is a decline in the operating expenses. Operating expenses has now been divided into two statutory limits. The operating expense should not exceed 19% of the total premium income mobilised during a given period. Second, operating expenses must have a proportionate premium income mobilised. Compliance with these two statutory mandates has made the insurers to act cautiously in incurring their expenses. This is a peculiar type of restriction of an insurance company which is justified for following reasons –

a) Insurance business is a business for mitigating risk of others.

b) An insurance entity undertakes others risk.

c) An insurer makes itself liable to a third party.

d) Under this background the premium collected in a given year cannot be considered an income for that year.

e) Because the premium received during the year is not an absolute or free income of the insurer, it can be at best considered as a contingent income. The premium mobilised may be very insignificant as compared to the total amount of an unforeseen event.

f) Therefore, conservation of premium income by restricting the proportion of operating expenses is very essential and in order to create a provision for contingent liability i.e. uncertain and may occur in future.

g) By restricting the percentage of operating expenses to premium income mobilised by restraining the proportion of operating expenses in proportion to premium income an insurance company is provided an opportunity to conserve adequate cash inside the business. Conservative Approach in making operational expenses would leave enough resource contingently available in case of occurrence of a claim. This approach strengthens the financial health of the insurance company.

The reasons for the growth of higher incurred operating expenses over the years by the public sector insurer are mainly because of expanded network, excessive manpower, slow technology etc.

8. (IV) Investment Income

Large amount of money lies at the disposal of the insurer in the form of premium. In India investment regimes in insurance has always been put under severe restrictions. This amount lying with the insurer can be invested by them as per the provisions of Section 27A of the Insurance Act, 1939 which includes investment in central and state Government securities, loan to National Housing banks, infrastructure and socially oriented sector etc. The income from investment forms an important source of revenue to the insurer.

<table>
<thead>
<tr>
<th>Year</th>
<th>Investment Income of public sector insurers</th>
<th>Growth in percentage over previous year</th>
<th>Investment Income of the Industry</th>
<th>Growth in percentage over previous year</th>
<th>Market share of public sector insurers</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007 – 08</td>
<td>6241.51</td>
<td>7.91</td>
<td>6983.56</td>
<td>12.65</td>
<td>89.37</td>
</tr>
<tr>
<td>2008 – 09</td>
<td>4799.78</td>
<td>-23.10</td>
<td>5890.98</td>
<td>-15.65</td>
<td>81.47</td>
</tr>
<tr>
<td>2009 – 10</td>
<td>6347.27</td>
<td>32.24</td>
<td>7687.94</td>
<td>30.50</td>
<td>82.56</td>
</tr>
<tr>
<td>2010 – 11</td>
<td>7842.20</td>
<td>23.55</td>
<td>9381.83</td>
<td>22.13</td>
<td>83.58</td>
</tr>
<tr>
<td>2011 – 12</td>
<td>7424.26</td>
<td>-5.33</td>
<td>9507.91</td>
<td>1.34</td>
<td>78.08</td>
</tr>
<tr>
<td>2012 – 13</td>
<td>8610.45</td>
<td>15.98</td>
<td>11530.47</td>
<td>21.31</td>
<td>74.67</td>
</tr>
</tbody>
</table>

Source: IRDA annual reports.

Table 4 exhibits that the investment income of the public sector insurers has shown a considerable decline in the year 2008-09 from 89.37 to 81.47 percent. There has been a steady growth in the investment income for the next three years from 2009-2011. Moreover, public sector insurers have also experienced a negative growth in 2011-12. The market share of investment income of the public sector insurers has declined significantly in 2008-09 and has increased nominally for next two years. The decline in investment income
a) In course of our present research enquiry we had encountered a very disturbing situation. From the aforesaid table we have gathered that a premium income mobilised by undertaking risk in respect of public sector companies has declined and as a fall out of that the investible resources at the disposal of public sector companies have declined. The income generated from such investment has declined.

b) Perhaps the decline in investible resource in public sector insurance entity has enriched the premium income of privatise sector insurers. There investible resources and there income from investment has gone up.

c) It poses a question before us that if that proportion of income is appropriated by the private sector insurers and further a part of that income could be repatriated by the foreign insurers into their parent country. If this is so than it targets the wisdom of opening up domestic insurance business to foreign players. Perhaps six years time period may be too short to answer this question, unless the things are revered in a foreseeable future time period. Political wisdom and government’s action of allowing FDI in insurance sector may be brought under public scrutiny and national debate in a greater platform.

8. (V) Net Incurred Claims

Incurred claims are the claims paid during a particular year plus the claim reserves at the end of the policy year minus the corresponding reserves as at the beginning of the policy year.

TABLE 5: Comparison Of Net Incurred Claims Of The Four Public Sector Insurers Compared To Total Net Incurred Claims By The Industry As A Whole.

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Incurred claims of public sector insurers</th>
<th>Growth in percentage over previous year</th>
<th>Net Incurred claims of the Industry</th>
<th>Growth in percentage over previous year</th>
<th>Market share of public sector insurers</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007 – 08</td>
<td>12124.81</td>
<td>15.05</td>
<td>16371.12</td>
<td>25.41</td>
<td>74.06</td>
</tr>
<tr>
<td>2008 – 09</td>
<td>13637.79</td>
<td>12.48</td>
<td>19702.57</td>
<td>20.34</td>
<td>69.21</td>
</tr>
<tr>
<td>2009 – 10</td>
<td>14967.23</td>
<td>9.75</td>
<td>22274.48</td>
<td>12.97</td>
<td>67.19</td>
</tr>
<tr>
<td>2010 – 11</td>
<td>19599.14</td>
<td>30.95</td>
<td>29536.45</td>
<td>32.60</td>
<td>66.35</td>
</tr>
<tr>
<td>2011 – 12</td>
<td>22242.06</td>
<td>13.48</td>
<td>34997.65</td>
<td>18.58</td>
<td>63.55</td>
</tr>
<tr>
<td>2012 – 13</td>
<td>25061.37</td>
<td>12.62</td>
<td>39623.61</td>
<td>13.16</td>
<td>63.24</td>
</tr>
</tbody>
</table>

Source: IRDA annual reports.

Table 5 exhibits that the net incurred claims of the public sector insurers has shown a considerable decline in the years 2008-09 and 2009-10 from 15.05 to 9.75 but the very next year in 2010-11 the net incurred claims has shown a very rise of almost three times 30.95 percent. In the year 2011-12 the growth rate of claims has retarded to 13.48 percent. The market standing of the public insurers in terms of net incurred claims has shown a very steady decline every year and has come down from 74.06 to 63.55.

8. (VI) Underwriting Losses

Underwriting losses refers to that amount of money which an insurance company gains or losses as a result of its insurance operations excluding investment incomes and taxes.

Table 6: Comparison Of Underwriting Losses Incurred By The Four Public Sector Insurers Compared To Total Underwriting Losses Incurred By The Industry As A Whole

<table>
<thead>
<tr>
<th>Year</th>
<th>Underwriting Losses of public sector insurers</th>
<th>Growth in percentage over previous year</th>
<th>Underwriting Losses of the Industry</th>
<th>Growth in percentage over previous year</th>
<th>Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007- 08</td>
<td>12124.81</td>
<td>15.05</td>
<td>16371.12</td>
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<tr>
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<td>12.62</td>
<td>39623.61</td>
<td>13.16</td>
<td>63.24</td>
</tr>
</tbody>
</table>

TABLE 6 exhibits that the underwriting losses of the four non-life insurers under the public sector insurers has shown a considerable decline for two consecutive years in the underwriting losses in 2008-09 and 2009-10 and
has fallen to 9.75 percent and in the very next year 2010-11 there is a sharp rise of underwriting losses to 30.95, then again a significant decline in 2011-12 is being noticed. But if the losses incurred by the public sector as compared to the market is analysed there is a considerable decline in the share every year.

9. Suggestions
a) The public sector non-life insurers should strive to increase their business of issuing new policies as well as the existing ones so as to retain its market share in the competitive market.

b) Operating cost needs to be controlled so as to increase the profitability.

c) Should make the best use of their manpower resources to popularise the products among the rural mass.

d) Availability of the large network of branches is an advantage of the public insurers over private insurers and this should be utilised to the optimum level to improve business.

e) The conduct of physical form of business may gradually be supplement by undertaking online business operation. This will improve the outreach of insurance coverage on the one hand and reduce the operating expenses at the same time.

f) It is therefore suggested to improve the sharing of information with the customer allowing the role of symmetry information to play its normal role and reduce the possibility of mis-selling of insurance products.

10. Conclusion
State owned insurance companies still have dominant market position. Although the new private insurers are bringing in new products, innovative distribution channels to reach a broader range of population. The collected and analysed data prove that the four public sector non-life insurers in India has performed quite satisfactorily in the post de-tariff regime.

Although the short term scenario of the industry appears to be challenging but has ample opportunities for growth. With the move to raise FDI cap to 49% as well as the huge untapped market potential there seems higher potential for expanding scale.

References